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SUBJECT: MEXICO ECONOMIC NOTES, JANUARY 18 - JANUARY 24,  
2007

Sensitive but Unclassified, entire text.

Summary  
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¶1. (SBU) Finance Secretary Agustin Carstens discussed technical assistance, and Economy Secretary Sojo raised border facilitation in meetings with the Embassy. The Embassy's Energy Reform Project held its first public meeting. Questions remain even within Pemex about the cause of a six percent drop in crude production between November and December. While high tortilla prices have caused problems for Calderon, in fact, they rose less than analysts predicted leading to a 0.33% jump in inflation in the first half of January. Intervention from Labor Secretary Javier Lozano averted a strike by sugar workers. End summary.

Ambassador Meets with Hacienda and Economia Secretaries  
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¶2. (SBU) Ambassador Garza met with Finance Secretary Agustin Carstens and Economy Secretary Eduardo Sojo. Carstens raised technical assistance; while the Ambassador and Sojo discussed improving North American competitiveness and improving border facilitation. (See Mexico 306-Sojo and Mexico 351-Carstens.)

Energy Reform Project First Public Meeting  
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¶3. (SBU) In the first public meeting under the Embassy's Energy Reform Project, the Instituto Tecnologico Autonomo de Mexico (ITAM), the Mexican Council on Foreign Affairs (COMEXI), and the U.S. Center for Strategic and International Studies (CSIS) held a seminar on Mexican Energy. Members of the Mexican Congress including Senate Finance Committee Chair Gustavo Madero, Energy Committee Chair Francisco Labastida, and Deputies and Senators from all three political parties

shared views on reform in the event, which was broadly covered in the Mexican press.

#### Pemex Still Mum on Production Drop

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14. (SBU) Pemex officials contacted by the Embassy were still scrambling to explain the continued steep drop in Mexican crude production which fell from 3.16 to 2.98 thousand barrels per day from November to December 2006, the lowest level since November 2000. Most all of the drop was due to declines from the Cantarell field. Some Pemex officials called the dip a result of bad weather that delayed deliveries, but others were less certain.

#### High Tortilla Prices Pressure Calderon. . .

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15. (SBU) A spike in tortilla prices has caused public protests and political headaches for the Calderon Administration. The government is taking measures to bring prices down, including: increased corn imports; a deal with some major tortilla distributors to set price caps temporarily; and investigations into whether corn merchants who have been holding onto their stocks and speculating on higher prices might have engaged in anti-competitive practices. Despite the price hikes, there does not seem to be a corn shortage in Mexico. The additional imports, an upcoming harvest in the state of Sinaloa, and all the political heat will persuade those still sitting on corn stocks to get them on the market sooner rather than later, thus bringing down prices and alleviating the political pressure on the government. (See septel.)

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#### . . .But Inflation Less than Feared

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16. (SBU) Mexican consumer prices climbed a lower-than-expected 0.33% in the first half of January, as prices of key items, such as tortillas and eggs, rose less than analysts expected. In annual terms, headline inflation fell from 4.1% in December to 4.0% -- back within the government's 2% to 4% target range for the first time since September 2006. More worrisome is the rise in core inflation from 3.6% in December to 3.8%.

#### Labor Secretary Averts Sugar Strike, For Now

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17. (SBU) Labor Secretary Javier Lozano negotiated a deal between Mexico's sugar workers and mill operators earlier this week tentatively averting a strike. Mill operators agreed to dropping workers' retirement age from 65 to 60; while union representatives accepted a single payment be made to retiring workers based on time of service in addition to Mexican Social Security benefits. (See Mexico 352.)

#### Calderon Touts FDI

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18. (SBU) In a meeting of Mexico's Executive Board of Global Business (CEEG, an organization of major multinational firms active in Mexico), Calderon told foreign business leaders that from the beginning of his Administration he has worked on ways to give guarantees that would encourage foreign investment, in contrast to other governments in the region which are thinking of expropriating and decommissioning investments. Meanwhile the CEEG chairman announced that his member companies would commit to invest USD 3 Billion during the first 100 days of Calderon's Administration. (Comment: Given Mexico's 2006 USD 18.9 Billion in FDI, the USD 3 billion figure in 100 days seems a bit low. This gives further credence to predictions from the Institute of International Finance that 2007 FDI for Mexico will decrease

by nearly USD 3 billion.)

#### Calderon Subsidizes Energy for the Poor

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19. (SBU) Calderon fulfilled a campaign promise by announcing a USD 275 million initiative to subsidize energy costs of the five million households registered for the "Opportunities" anti-poverty program. Calderon said the energy subsidy would increase the assistance received by nearly 25 million poor Mexicans by 30%, and raise the budget for the Opportunities program by 10%.

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